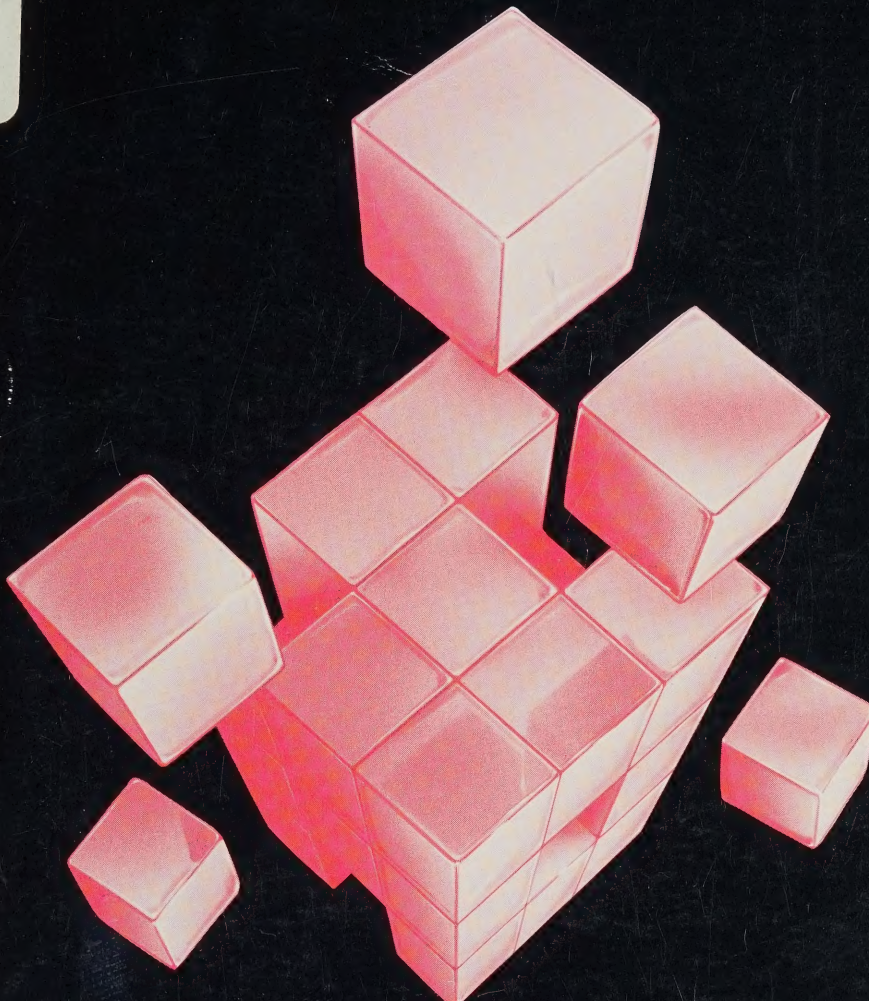

Ontario

Competing in the New Global Economy

Premier's Council

Report in Brief

PREMIER'S COUNCIL
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INTRODUCTION

The Premier's Council was established by the Ontario government in 1986, with a mandate to "steer Ontario into the forefront of economic leadership and technological innovation."

The Council is chaired by Premier David Peterson and its membership represents a broad cross-section of the Ontario economy—business, labor, government, and the universities.

This is a shortened version of the Council's first report. It is the result of a comprehensive process of research and consultation—a process which, the Council believes, could provide a model for the consensus-building that must accompany the restructuring of Ontario industry.

Copies of the full report, including two additional volumes of research studies, are available from the Premier's Council's Secretariat within the Ministry of Industry, Trade and Technology.

EXECUTIVE SUMMARY

The Premier's Council report is about Ontario's economy: what's wrong and how to fix it, where the economy should be headed and what's needed to take it there. You might call it a survival manual because the report addresses the question of how the next generation of Ontario residents will earn their livings in a vastly different, and much less forgiving world. It's a blueprint for the province's continued prosperity in the 21st century, a time when most new wealth will be found between our ears, rather than beneath our feet.

THE REPORT IN A NUTSHELL

In a nutshell, the Council's report recommends various measures that will promote higher value-added manufacturing by Ontario exporters. It argues that the province's major industries must redirect their present emphasis on such basic commodities as newsprint or sheet steel, and move toward a range of "smarter," more specialized products—products whose value resides mainly in the skill and ingenuity of the people who develop and manufacture them. To reach this goal, the report argues, Ontario needs a few more companies like Northern Telecom—large, indigenous multinationals operating in high-growth, high-technology industries, developing their products here and selling them all over the world. The report also suggests ways to help medium-sized Ontario companies make the risky, costly leap into the international big leagues.

But the process that produced this report may, in the end, turn out to be almost as significant as its contents. This is not a report by government. It is a report to government by a group of well-positioned, well-informed private citizens and Cabinet Ministers who represent most of the institutional levers in the provincial economy: organized labor, the universities, business, financial institutions, venture capitalists, research and development institutions, owners and developers of technology.

It is these players who must implement any economic and industrial strategy the province chooses to adopt. In a mixed, market-driven economy such as Ontario's, economic planning cannot be imposed from on high. New directions can be achieved only through a broad consensus among all the stakeholders in the economy—and, in the Council's view, there should be even more stakeholders. That is why one of the report's key recommendations for future discussion and development involves increased worker ownership of the firms that employ them; the broader the ownership base, the broader the consensus that must be built if Ontario and Canada are to make the necessary transition to a more advanced industrial society. The work of the Premier's Council exemplifies this consensus-building process.

SOME CONCEPTUAL DEPARTURES

Because of the Council's unique advisory role, it is able to offer in this report several conceptual departures from the conventional policy-making wisdom. Among these departures:

• The Council draws a sharp distinction between "traded" and "non-traded" businesses—terms that require immediate explanation. "Traded" businesses are, simply, those that compete in global markets and thus provide the motive force for the Canadian economy. These are businesses that seek to extract Ontario's fair share of value in trade with the world. They are generally the larger manufacturing industries which export and upon which nearly all other businesses depend for their ultimate prosperity. If a non-traded business such as a restaurant fails, another restaurant will probably take its place. But if an industry engaged in global competiton declines or fails, so do dozens, or even hundreds, of other businesses that depend on it. The health of Ontario's large, exporting industries is crucial to the economy as a whole. But government policy-makers have too seldom observed the distinctions between traded and non-traded industries in developing business incentive programs.

• The Council also distinguishes between job creation and wealth creation, a distinction that is crucial, yet often overlooked. Wealth—the value-added per employee by a nation's traded industries—is what makes that nation prosperous relative to other countries. Wealth creation, along with purchasing power, is what constitutes a nation's living standard. Jobs are a by-product of this wealth-creation process.

Politicians tend to be fixated on the imperatives of job creation, much of which takes place in the non-traded sectors of the economy. But it is the traded industries, and the wealth they create, which largely determine how many jobs are created elsewhere in the economy, and how well those jobs pay. A cab driver in Mexico City probably works just as hard and efficiently as his Canadian counterpart, but is paid much less—mainly because Mexico lacks a strong core of value-adding, export-oriented, wealth-creating industries. That lack is what constitutes underdevelopment.

• Finally, the Premier's Council makes a conceptual distinction between "indigenous" and Canadian-owned companies. Indigenous companies, in this sense, are companies that do their planning, product development, marketing, manufacturing, exporting,

and strategic planning from a Canadian base. The Council believes that if a company behaves like a Canadian-based company, it hardly matters who owns its shares. Many foreign-owned firms behave like branch plants; the important decisions are made somewhere else. But other foreign-owned firms really are "indigenous," because they act as if their hearts, brains, and head offices were in Ontario, with commensurate benefits flowing to the provincial and national economies. Pratt & Whitney and Inco, for instance, are foreign-owned. But because they originate, manufacture, and market innovative products from an Ontario base, they deserve to be regarded as indigenous firms, and treated as such by policy-makers.

These distinctions—between wealth creation and job creation, between branch plants and indigenous firms, between companies that compete globally and those that do not—carry important policy implications. The bulk of this report is concerned with those implications and how government should respond to them.

I. COMPETING FOR PROSPERITY

"We have attained our present wealth by mastering a set of economic rules that are becoming steadily less relevant for our circumstances."

Yes, Ontario looks rich, but the veneer of prosperity conceals serious structural weaknesses. The Council believes that the same historical forces that made Ontario's economy prosperous today could make it vulnerable tomorrow.

Natural resources and tariff walls are the traditional foundations of Ontario's wealth, but both advantages are disappearing. To maintain prosperity, Ontario's traded industries must score sufficient gains in productivity to maintain and increase their share of global markets. (There is an alternative to higher productivity, but few would find it palatable: cutting wages).

The primary goal of economic policy, therefore, should be to raise the value of output for every hour worked in the Ontario economy, especially in mature manufacturing industries. This value-adding process is known as industrial restructuring. It usually means producing more with fewer employees, and focussing on "smart" products that require skill and ingenuity to develop and manufacture. But if wealth is to increase during a period of restructuring, laid-off employees must be re-employed elsewhere in the economy.

How well is Ontario industry performing according to these criteria? Ontario's resource-based industries, such as mining and pulp and paper, are still competitive, but their potential for expansion is limited because they are now competing against countries with equally abundant and often cheaper resources. The province's few remaining low wage industries are uncompetitive and declining. Mature manufacturing industries, such as automobiles and steel, are still the backbone of Ontario's prosperity; but they face slow growth in their markets and stiff international competition.

By and large, most of the industries of Ontario's past and present are performing moderately well. And the industries of the future? Unfortunately, in most of these high-growth sectors (with the notable exceptions of telecommunications and aerospace), too many Ontario companies are uncompetitive internationally, with much lower valued-added per employee than in Ontario industry as a whole. The main reason is that most of these firms are foreign-owned and their key value-added activities, such as R & D and product design, are usually handled by the parent company. It is in these emerging industries that our vulnerability is most clearly exhibited; their weakness is at the heart of Ontario's competitive problem.

II. BROADENING THE CORPORATE BASE

"Long-term economic prosperity in Ontario will depend disproportionately on developing in high-growth industries another four to five firms of the scale and success of Northern Telecom."

This is really the essence of the Council's report: if Ontario is to continue to compete internationally, the province must develop more, indigenous multinational manufacturing companies operating in high-growth industries. At the moment, Ontario has several large, indigenous exporters that command important market shares in high-growth industrial sectors, but only one that is Canadian-owned: Northern Telecom, with sales in excess of $6 billion annually.

Most major industrialized countries have 40 or 50 multinationals that account for most of that nation's exports. Sweden's top 50 exporting companies, for instance, account for 68 percent of everything Sweden sells abroad. Ontario's pattern is similar—except that most of Ontario's top exporters are branch plants. Most of their product development, marketing, strategic planning, and other vital corporate functions are conducted outside Ontario, and much of their "exports" consist of intercompany transfers.

In developed economies such as Japan, the U.S., and West Germany, foreign-owned firms account for only 5 percent of the exports of the top 50 leading exporting companies. In Ontario, branch plants—including the Canadian subsidiaries of the big three

automakers—account for 75 percent of the exports of the top 50 exporters.

Accordingly, Ontario needs flexible policies that will encourage foreign-owned firms to behave like indigenous ones, and measures to promote the growth of a few Ontario-based firms into world-scale multinationals. Ideally, Ontario's industrial structure should parellel that of Sweden, with 10 or 15 indigenous multinationals, each a world leader in a fairly specialized business.

III. REALIGNING THE GOVERNMENT FOCUS

"Instead of maintaining its traditional role as a lender and grant-giver to industry, government must begin to portray itself and function in partnership with industry."

Canadian governments, both provincial and federal, spend billions of dollars annually encouraging the formation and growth of Canadian companies. In the interests of job creation, large sums are spent encouraging small business and promoting regional development. This support is useful and necessary, but it seldom advances what should be Ontario's primary policy goal: to create more multinational companies.

The Council believes that Ontario and federal programs are equally deficient in this respect. In their lending and granting policies, neither distinguishes between traded and non-traded companies, or between high and low value-added businesses. Three biases in government programs tend to assert themselves:

- A bias in favor of small, service-oriented businesses;
- A bias in favor of slow-growth regions;
- A bias in favor of asset-based lending.

(Money is readily advanced, in other words, for tangible investments such as new machinery or more modern facilities. But it is much harder to get financial support for what might be even more productive investments in such strategic areas as engineering, marketing, or product development.)

A classic example of unfocussed priorities: the federal Industrial and Regional Development Program recently spent millions assisting the pulp and paper industry in modernizing its ancient mills. The productivity gains, as expected, were fairly marginal; but by using taxpayers' dollars to refurbish and thus maintain its status quo, the industry was encouraged to remain in the low value-added end of the business. The Council believes that public support of Ontario industry should be aimed at lessening Canada's traditional role as a hewer of wood and drawer of water, not entrenching it.

Many small businesses are deserving of public support. Nevertheless, government programs must recognize that Canada's prosperity ultimately depends, not on motels, laundromats, and restaurants, but on large, indigenous, exporting companies that can compete with the world's best.

IV. RESTRUCTURING IN CORE INDUSTRIES

"Both resource-based and mature manufacturing industries in Ontario are in the throes of an industrial restructuring processes driven by increased international competition."

The resource-based and mature manufacturing industries, on which Ontario depends for its current prosperity, are struggling against growing international competition and, in varying ways, trying to restructure themselves. Some of these industries—pulp and paper, steel, automobiles, food processing, chemicals—have been less than successful at moving towards higher value-added production.

The Council's analysis of several core industries reveals themes that are common to Ontario industry as a whole:

- **Pulp and paper:** The Ontario industry seems healthy, thanks to cheap wood and a cheap dollar. But it is technologically backward (60 percent of its machinery was installed before 1930) and operates almost exclusively in the lower value-added end of the product spectrum. Producers from other countries dominate the higher value-added specialty paper markets, and low-cost competition from Brazil and elsewhere may soon threaten the Canadian industry's dominance of traditional markets. Naturally, the industry can cite sound economic reasons for its dependence on low value-added products such as newsprint. But unless ways can be found to diversify and upgrade the industry's product mix, its future prospects are less than encouraging.

Recent experience suggests, moreover, that the industry may be missing opportunities to regenerate itself. When Sweden devalued the kroner in 1982, the Swedish paper industry used the resultant profits to diversify into new, higher value-added production. Canada devalued too, but Canadian producers responded differently: their profits increased, but they kept on doing the same old things.

- **Food processing:** Most of Ontario's food and beverage processors operate in a regulated environment. The prices they pay are set by marketing boards and, in return, they're shielded from foreign competition. The Canada-U.S. Free Trade Agreement, if implemented, will expose the industry to for-

midable U.S. competition and force it to restructure. This will not be easy. Seeking new foreign customers will be costly and risky because these are slow-growth markets. Moving to higher value-added production may also be difficult, since many firms lack scale and the requisite skills in marketing and product development.

• **Steel:** Ontario's industry has kept pace with technological advances in steelmaking and leads the developed world in low-cost production. But the world is making too much steel, and Canadian exports to the U.S. are limited by voluntary restraints, a situation that is unlikely to be improved by the proposed Free Trade Agreement. Despite these constraints, the industry's past investments in modernization should enable it to continue its move to higher value-added production.

• **Automotive:** Despite major investments by U.S. and Asian automakers that have given Ontario some of the world's most modern assembly plants, the auto industry as a whole is facing overcapacity in assembly and automotive parts. The Ontario industry will be under continued pressure to improve quality and productivity in order to survive.

• **Chemicals:** The Ontario industry has resisted a worldwide trend toward producing higher value-added specialty chemicals, and remains largely uncompetitive. Canada's chemical trade deficit more than tripled between 1983 and 1986. Growth is occurring in specialty chemicals, where Ontario's industry is weak. Like pulp and paper, the Ontario chemical industry is still competitive in lower value-added commodity products. But the chemical trade deficit could continue to grow if an industry shift to higher value-added products does not occur.

A NEW PROVINCIAL APPROACH

The Council believes that government can play a significant role in easing the restructuring process and in developing comprehensive adjustment strategies for affected workers. The Council therefore recommends that the government:

• Establish an Ontario Recapitalization Incentive Plan to attract investment in qualifying, medium-sized (sales of $100-$200 million) exporting companies in core industries. Investors in new issues of qualifying firms would receive significant tax credits or tax deductions.

• Direct the Industrial Restructuring Commissioner to focus on traded industries, to identify troubled companies before they become bailout candidates, and to develop viable restructuring plans in consultation with all stakeholders, including owners, workers, suppliers, and lenders.

• Develop comprehensive strategies to meet the adjustment needs of workers in industries that are undergoing restructuring.

• Investigate worker ownership incentives, perhaps following the model of Quebec's Solidarity Fund, to enable labour to invest in healthy companies. The idea is not to encourage workers to bail out their own employers, but to broaden the ownership base of Ontario industry as a complementary component of the restructuring process.

The Council also suggests that the Ontario government, in consultation with the food processing industry, consider launching a food products trading company to penetrate markets outside Ontario. Government could own shares in this trading company, but not a controlling interest. If a food products trading company proved to be effective, the same joint approach might be applied in other industrial sectors.

V. INVESTING IN HIGH-GROWTH AND EMERGING INDUSTRIES

"It is imperative to broaden and deepen the current high-growth and emerging industrial base."

Canadian firms in the emerging and high-growth sectors operate at a serious disadvantage relative to their international competitors. Apart from the usual drawbacks of size and scale, Canadian high technology firms suffer from a lack of supporting industry infrastructures; they receive fewer tax breaks than their competitors and other government support for their R & D efforts is far less generous. Effective government purchasing policies might overcome some of these disadvantages. But in Canada, the powerful tool of government purchasing power has seldom been used effectively either federally or provincially.

This policy vacuum helps explain some of Canada's successes and failures in high technology industries. It helps explain how Northern Telecom, De Havilland, and Pratt & Whitney Canada have become major indigenous exporters. And it explains why there is virtually no Canadian computer hardware industry—mostly because governments buy 40 percent of all computer hardware sold in Canada, but have never used this clout to support the development of strong indigenous companies.

In software, Canada's trade deficit is $2-$3 billion annually. An opportunity still remains to nurture an indigenous software industry. But, once again, the opportunity could be missed unless government uses its massive purchasing power as a tool for industrial development.

Governments everywhere support technology development through university and government labo-

ratory research, through direct and tax-based financial assistance, and through purchasing policies that support the growth of indigenous companies. In Canada, all three forms of support lag significantly behind what is available in other industrialized countries.

But instead of increasing its tax incentives, Ottawa is actually cutting them. The Council therefore recommends that the Ontario government:

• Institute a special tax incentive for incremental R & D expenditures above a company's three-year rolling average of R & D performed in Ontario.

• Move to a system of strategic procurement in government (including Ontario Hydro) purchasing. This would be a departure from the present practice of spreading the work among dozens or hundreds of small suppliers. The aim should be to use the government's purchasing power to help local suppliers upgrade their expertise, improve their products, cut their costs, and gain sufficient scale to compete in world markets. The Council also recommends establishing a Strategic Procurement Committee to advise government on the most effective purchasing strategies, and an Enabling R & D Contract Fund to finance prototype research as a prelude to awarding major government contracts and to perform other industry-building functions.

VI. BACKING THE THRESHOLD COMPANIES

"The group of companies from which new world-scale Ontario competitors could emerge is alive today and already meeting with some success in export markets."

There are dozens of Ontario companies that have already met the challenge of global competition. They have developed innovative products, learned how to produce them efficiently and carved out significant international markets for them.

These are called "threshold" companies because they have the potential to take the decisive leap that could make them world leaders in their respective fields. Threshold companies already exist in many strategic sectors—Magna International in auto parts, Electrohome in video displays and circuit boards, Gandalf in computer data communications, Menasco in aerospace components. It is from the ranks of these threshold companies that the multinationals of the future will most probably emerge.

They will, that is, if these firms can summon the resources for that all-important leap into the big time. But for most threshold companies, the leap is much riskier than it would be for a foreign competitor. For many, the leap would mean "betting the company" because of the prohibitive costs of pentrating new markets or developing new products. The challenges are greater for high technology industries, which must attack many markets simultaneously, or for which the transition from clone-maker to innovator can involve enormous costs and enormous risks.

The Council therefore recommends:

• That the government create an Ontario Risk Sharing Fund to provide matching loans to established, successful Ontario exporters that want to develop new products or penetrate new markets.

The loans, of up to half of total project costs, would be repayable on a sliding scale—no repayment if the project fails, but repayment at above-market interest rates if it succeeds. In line with the experience of similar funds in Sweden and France, the program would aim at financial self-sufficiency after initial funding.

• That the priorities of the Ontario Development Corporations continue to change, so as to reflect the priorities outlined in this report. The ODCs should focus more of their assistance on firms in the manufacturing and tradable service sectors; they should be especially attentive to threshold firms seeking to expand their foreign sales; and they should orient their assistance towards encouraging the move toward higher value-added products. Obviously, the ODCs must maintain and expand their present activities as incubators of regional growth. But there is an overriding and complementary role for them to play in helping to build Ontario's major exporting industries.

VII. FOSTERING AN ENTREPRENEURIAL CULTURE

"An entrepreneurial culture in which start-up companies can flourish does not just happen. It must be fostered."

Based on extensive research and interviews with entrepreneurs in 71 young Ontario companies, the Council concludes that there is a role for government in fostering an entrepreneurial climate and in easing the birth pangs of junior, traded-sector companies.

The Council's research identified a major gap in the Ontario venture capital industry. Although the amount of available venture capital has increased dramatically in recent years, the sums available for early-stage financings have actually declined. The problem is not so much a shortage of money as it is a shortage of knowledgeable, early-stage financiers, who understand the delicate art of nurturing young companies.

Another major problem for young companies is the difficulty they experience in going public—a route

that not only permits wider investor participation, but also provides a necessary "exit route" for early-stage investors.

Accordingly, the Council recommends that the government:

- Encourage the formation of a special class of early-stage venture capital funds. Qualifying businesses would include manufacturing or export-oriented service businesses committed to achieving substantial foreign sales over the next five years.
- Offer incremental tax incentives, above and beyond those offered under the Ontario Recapitalization Incentive Plan, to investors in initial public offerings of qualifying Ontario companies in traded sectors.

VIII. REFINING THE ROLE OF SERVICES

"An efficient non-traded service sector contributes significantly to our standard of living, but is no substitute for high productivity in our traded businesses."

Services businesses are enormously important to Ontario. They employ more than four million people—75 percent of the province's employment—and represent two-thirds of the total economy.

But the relatively small traded portion of service industries is a problem that should be addressed in future incentive strategies. The Council's analysis of Ontario's financial service industries (banks, insurance companies, and investment dealers) found that only marginal portions of these businesses were traded.

Nevertheless, strategic opportunities for development of Ontario's traded service sector should not be overlooked. The Quebec government and Hydro Quebec used their purchasing power in the 1970s to help create three major engineering firms, which now sell their services around the world. Similar opportunities exist today in Ontario, and the purchasing policies advocated in this report represent a first step toward seizing those opportunities.

IX. MEETING THE SCIENCE AND TECHNOLOGY IMPERATIVE

"The Council believes Canada is at a critical point in meeting the science and technology imperative. The old approaches are no longer viable. New strategies are not yet in place."

The inadequacies of Canada's R & D effort have been well documented. Overall, Canada spends roughly half as much on R & D as a proportion of its gross domestic product (GDP) as the leading industrialized countries. Core industries such as steel, pulp and paper, chemicals, and food processing spend roughly half as much on R & D as a percentage of sales as do their foreign competitors. It is true that Canada spends more, proportionately, on government R & D than do many countries. But that, it turns out, is part of the problem.

The Council believes that R & D in government laboratories is poorly targetted and largely irrelevant to the needs of industry—even to the needs of those companies cited by the National Research Council as their research collaborators.

To get maximum benefit from our R & D dollars, the respective roles of each player—government, industry, and the universities—must be clearly defined and differentiated. In general, universities should stick to fundamental, pre-competitive research and to training high-calibre personnel. Industry should do its own research and, as in other countries, should receive a higher proportion of government R & D funding.

Research in government laboratories (apart from that devoted to clearly defined public missions, such as defence and the environment) should increasingly be tied to an industrial client base.

Accordingly, the Council recommends that:

- Government should involve the private sector more effectively in university and government research, and ensure that industrial priorities play a much more important role in guiding such research.
- Ontario establish a Technical Personnel Assistance Program, which would subsidize the new hiring of technicians, engineers, and scientists by qualifying Ontario companies with sales of less than $100 million annually.

X. INVESTING IN PEOPLE

"One of the key competitive challenges Ontario faces is developing our most fundamental natural resource: the minds and skills of our workers."

Education confers many benefits, but the one that concerns the Council in this report is its impact on our standard of living. Investment in the skills of people can no longer be regarded as less important than investments in plant and machinery; both are essential to economic growth and, to an increasing extent, one depends on the other.

The Council has placed education and training issues at the top of its agenda because the development of human resources is complementary to the development of Ontario's economy. The Council will continue to address these issues in future. In the meantime, a few observations:

On Education

• Ontario students are not performing as well as they used to, and their achievement levels are well below those of the highest achieving industrial nations. Students from Japan and Hong Kong score well ahead of our own students in international math tests. Illiteracy is rampant; in Ontario, among school-leavers over 15, nearly one person in five either cannot read or is functionally illiterate. In high-school dropout rates, Ontario very nearly leads the industrialized world.

• Ontario is not getting full value for what it spends on education. Educational spending rose by two-thirds between 1981 and 1987, with no measurable improvement in dropout rates or scholastic achievement levels.

• The Council believes Ontario should bring back province-wide testing. The performance of Ontario students and schools should be continually compared with those elsewhere in Canada and around the world. Public accountability of the school system must be strengthened, and spending patterns should be re-examined with a view to placing greater emphasis on teacher training.

• More co-op programs are needed at the high school level to ease the transition from classroom to workplace.

On Training

• Industrial training is an important element in the educational process and, despite much lip-service, there is not enough of it. Most training is carried on by a few major employers in selected industrial sectors, and most training programs are less than five years old. In this regard, the Council supports the efforts of the Ontario Training Strategy to address these problems, but sees a need for further action still.

• Federal training programs stress the skills required to enter or re-enter the workforce, or operate as an adjunct of the unemployment insurance system. Ontario must therefore take the lead in creating an environment in which more and better industrial training will take place.

• Apprenticeship and employer-sponsored training programs are weaker here than in such jurisdictions as Germany, Japan, and Sweden.

XI. BUILDING A NATIONAL CONSENSUS

"The business world's traditional reluctance to deal with government bureaucracy must be broken down, and government's perceived resistance to involving the private sector meaningfully in public policy development must be dissipated."

Most of the urgent issues raised in this report cannot be addressed by Ontario in isolation. They will require a coordinated national effort by Ottawa and the provinces. The Council has identified four areas in which national cooperation is imperative:

• **Science and technology:** The overall goal must be to build industry capability. This will require better coordination of research missions among government, universities, and industry, as well as better tax and other incentives for industrial R & D.

• **Industrial support:** Ottawa and the provinces must cooperate to ensure that a major by-product of government purchasing policies will be the creation of strong, indigenous, export-oriented companies. The risk sharing strategies proposed by the Council could, if duplicated in the federal sphere, fill an important strategic gap.

• **Training and adjustment:** The Council believes that federal training priorities, which stress social rather than economic goals, need to be reassessed in cooperation with the provinces in order to maximize the benefits to industry.

• **Tax incentives:** Recent federal tax reforms are of particular concern to the Council. Removing the 12 percent manufacturers' sales tax, without replacing it with a consumption-based tax, may be an invitation to further taxes on inputs. Similarly, changes in the rules governing investment tax credits and capital cost allowance could become serious disincentives to restructuring and reinvestment.

• **Building consensus:** The Premier's Council represents a wholly new approach to policy-making and could become a useful model for consensus-building on the national level.

But before such a national consensus can be achieved, two things must happen: business people must start talking to bureaucrats, and bureaucrats must start talking to business people. If Canada is to achieve industrial prominence in the 21st century, these two solitudes must somehow be bridged.

Symbolic recognition of excellence could become an important part of this consensus-building process. The Council therefore recommends:

• The creation of the Ontario Excellence Awards to honour achievements in education, entrepreneurship, worker innovation, and science and engineering.

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